STATE OF COLORADO

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December 29, 2005

Required Communications Letter

Members of the Legislative Audit Committee:

We have audited the financial statements of the State of Colorado for the year ended June 30, 2005, and have issued our report thereon dated December 29, 2005. Under auditing standards generally accepted in the United States of America, we are providing you with the following information related to the conduct of our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

We have a responsibility to conduct our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. In carrying out this responsibility we planned and performed our audit to obtain reasonable assurance about whether the State's financial statements are free from material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements, due to error or fraud, may exist and not be detected by us. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, we obtained an understanding of the State's internal controls sufficient to plan the audit and determine the nature, timing, and extent of audit procedures to be performed for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Significant Accounting Policies

The significant accounting policies used by the State are described in the notes to the financial statements contained in the Comprehensive Annual Financial Report issued under separate cover. As explained in the introduction to the Summary of Significant Accounting Policies, the State implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,* as of July 1, 2004.

Management Judgements and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the State's Fiscal Year 2005 financial statements include taxes receivable, allowance for doubtful accounts, depreciation of capital assets, deferred revenue, compensated absence liabilities, self-insurance liabilities, unclaimed property liabilities, scholarship allowances, and unemployment benefits payable. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. Uncorrected misstatements identified during the Fiscal Year 2005 audit were determined by management and the Office of the State Auditor to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The net effect of the uncorrected misstatements would have been to decrease the net assets by almost $560,000, decrease assets by about $2.3 million, increase liabilities by over $2.0 million, increase revenue by about $660,000, and increase expenditures by nearly $4.5 million. See Appendix B, which shows the net and gross passed audit adjustments by agency and the net and gross posted audit adjustments by agency.

Disagreements with Management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to confer with us to determine that the consultant has all relevant facts. To the best of our knowledge, there were no such consultations, written or oral, from other independent accountants during the past year.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

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This report is intended solely for the information and use of the Legislative Audit Committee, and the State's management and is not intended to be and should not be used by anyone other than these specified parties.

Joanne Hill